

# Australia: Boom to Bust Blog

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## The Reserve Bank of Blackjack IZNOP (<http://blog.australiaboombust.com/2014/08/reserve-bank-blackjack-iznop/>)

12th August, 2014 (<http://blog.australiaboombust.com/2014/08/reserve-bank-blackjack-iznop/>) · [linzcom \(http://blog.australiaboombust.com/author/linzcom/\)](http://blog.australiaboombust.com/author/linzcom/) (<http://blog.australiaboombust.com/2014/08/reserve-bank-blackjack-iznop/#respond>)

### Too much time betting, not enough time managing

By *Lindsay David*- Author of *Australia: Boom to Bust* (<http://www.australiaboombust.com/buy-now.html>)

In my book *Australia: Boom to Bust* (<http://www.australiaboombust.com/buy-now.html>), I lay the argument that since the Global Financial Crisis, the Reserve Bank of Australia (RBA) has been managing a bubble—not an economy.

Unfortunately, as every day passes, I become more and more confident in my prediction that at least one of the Big4 banks will either go bust, be bailed out, or nationalized before the end of 2017. Australians are told by our political leaders that our banking system is safe. Unfortunately, judging by the balance sheets of the Big4, the complete adverse is the reality.

Let's cut to the chase. When you look at the balance sheets and the asset growth of the Big4 from 1999 to 2013 you cannot help but to think of a historic business model that is ultimately destined for failure. I call it the 'IZNOP' business model. Like a Ponzi scheme, the IZNOP business model suggests that in the event of a leveling-off of investment/lending (for whatever reason), the business model breaks down due to the absolute dependency on uninterrupted growth to hold the business model together.

Without growth in both assets and dividends, the IZNOP business model breaks down, human instinct and panic sets in, and the rest is history. Unfortunately that is what history tells us. A strategy that requires an uninterrupted build-up of assets on a banks balance sheet (year-after-year), whilst maintaining the bear minimum of cash and strong dividend growth to investors has rarely succeeded over the long-term.

My question to the RBA leadership is this. How did Australian banking system get to look like this chart below?

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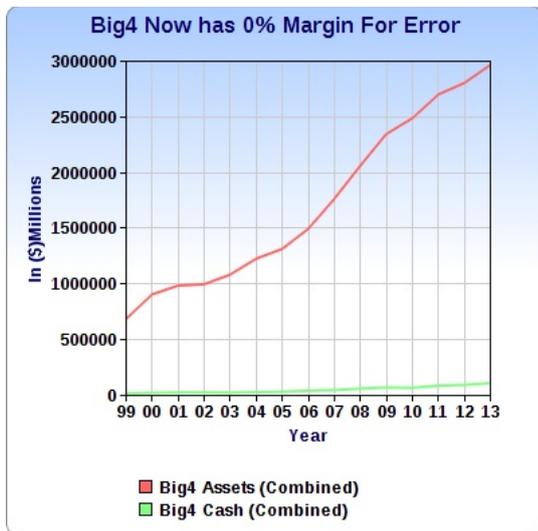
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(<http://blog.australiaboomtobust.com/wp-content/uploads/2014/08/BIG4-CASH-V-ASSETS-CHART.jpg>)

If the above chart does not represent a credit-fuelled asset bubble, what does?

Since 1999, there have only been two instances where the balance sheet of a Big4 bank declined over a twelve-month period. The first was in 2002, when the assets on ANZ's balance sheet declined by 1.3%. The second time was in 2009 when the asset value of the balance sheet at NAB declined by just 0.41%. Only Bernard Madoff had a better track record of consistent year-on-year growth before his Ponzi scheme broke down... No cash-flow.



(<http://blog.australiaboomtobust.com/wp-content/uploads/2014/08/Assets-on-Balance-Sheets.jpg>)

What does the bulk of this money on the balance sheets of the Big4 represent? Investment in Australian and New Zealand Real Estate. Today, all bets are on house prices only going up via more debt issued to new homebuyers both in terms of sum and relative to incomes.

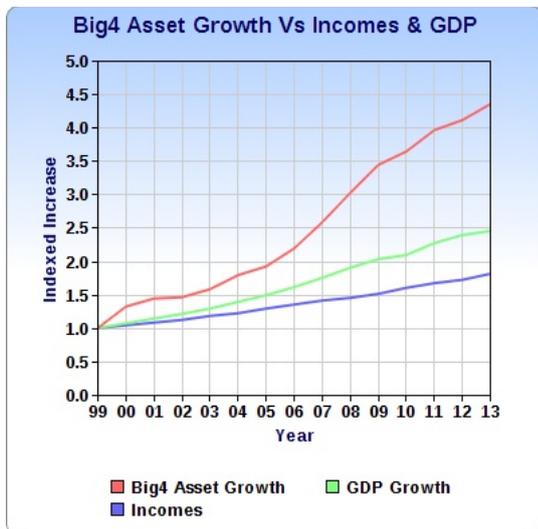
If for one reason or another homebuyers do not have access to, or take more debt than previous homebuyers took on from the Big4 banks, the IZNOP business model breaks down and Australia, alongside New Zealand, may find itself experiencing its very own house of cards moment.

The lack of intervention by the RBA over the last several years has left the Australian banking system with an inevitable confrontation. A confrontation that will suck the very life out of the Australian economy; and our way of life. Lets face it, incomes, and GDP are simply not keeping up with the banks toxic spending binge.

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(<http://blog.australiaboombust.com/wp-content/uploads/2014/08/Big4-Asset-Growth-v-Wages-v-GDP.jpg>)

In a recent blog I wrote with *Bubble Economics* (<http://www.worldeconomicssociation.org/books>) Co-Author's Philip Soos and Paul Egan (*The Propertied Federal Political Class* (<http://blog.australiaboombust.com/2014/08/propertied-federal-political-class/>)), Australian politicians are doing what they can to prop up the bubble. What is certain is that the financial results from the Big4 over the next few days will show big profits. But when the IZNOP business model breaks down, it will be nothing less than an economic disaster. This is what happens when a central bank lets four primarily domestic focused banks take an economy, and the life savings of a proud country to the casino.

To purchase a copy of the book Australia: Boom to Bust click here. (<http://blog.australiaboombust.com/buy-australia-boom-bust/>)

Sources:

Chart 1- Financial Results from ANZ, CBA, NAB &WBC 1999-2013

Chart 2- Financial Results from ANZ, CBA, NAB &WBC 1999-2013

Chart 3- Tradingeconomics.com, RBA & Financial Results from ANZ, CBA, NAB &WBC 1999-2013

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